

City of Morning Sun

**Independent Auditor's Report
Financial Statements and Supplementary Information
Independent Auditor's Report on Internal Control and Compliance
Schedule of Findings and Questioned Costs**

June 30, 2008

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City of Morning Sun

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Bryant	Mayor	December, 2009
Barbara Pealer	Mayor Pro-tem	December, 2009
Bill Rice	Council Member	December, 2009
Jerry Malone	Council Member	December, 2009
Terry Wallace	Council Member	December, 2011
Bill Minnis	Council Member	December, 2011
Holly Fletcher	City Clerk	Not Elected
Fran McElhinney	Treasurer	Not Elected



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Independent Auditor's Report

Honorable Mayor and Members of City Council
City of Morning Sun, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Morning Sun, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Morning Sun's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007 as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Morning Sun as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated January 11, 2009 on our consideration of the City of Morning Sun's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 14 and 15 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City of Morning Sun has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Morning Sun's basic financial statements. Other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CPA Associates PC

January 11, 2009

FINANCIAL STATEMENTS

City of Morning Sun
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2008

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 44,462	\$ 1,150	\$ -	\$ -	\$ (43,312)	\$ -	\$ (43,312)
Public works	79,769	-	74,707	-	(5,062)	-	(5,062)
Culture and recreation	45,971	-	1,888	1,229	(42,854)	-	(42,854)
Community and economic development	15,016	-	-	-	(15,016)	-	(15,016)
General government	132,680	28,388	-	-	(104,292)	-	(104,292)
Debt service	<u>83,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(83,044)</u>	<u>-</u>	<u>(83,044)</u>
Total governmental activities	<u>400,942</u>	<u>29,538</u>	<u>76,595</u>	<u>1,229</u>	<u>(293,580)</u>	<u>-</u>	<u>(293,580)</u>
Business type activities:							
Water	101,480	109,011	-	-	-	7,531	7,531
Sewer	64,804	74,296	-	-	-	9,492	9,492
Gas Service	363,007	406,173	-	-	-	43,166	43,166
Garbage Service	<u>48,618</u>	<u>52,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,408</u>	<u>3,408</u>
Total business type activities	<u>577,909</u>	<u>641,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,597</u>	<u>63,597</u>
Total	<u>\$ 978,851</u>	<u>\$ 671,044</u>	<u>\$ 76,595</u>	<u>\$ 1,229</u>	<u>(293,580)</u>	<u>63,597</u>	<u>(229,983)</u>
General Receipts:							
Property tax levied for:							
General purposes					140,864	-	140,864
Tax increment financing					49,665	-	49,665
Debt service					30,988	-	30,988
Local option sales tax					35,896	-	35,896
Unrestricted investment earnings					3,558	3,995	7,553
Loan proceeds					105,000	-	105,000
Transfers					(1,000)	1,000	-
Miscellaneous					<u>14,632</u>	<u>-</u>	<u>14,632</u>
Total general receipts and transfers					<u>379,603</u>	<u>4,995</u>	<u>384,598</u>
Change in cash basis net assets					86,023	68,592	154,615
Cash basis net assets, beginning of year					<u>57,406</u>	<u>245,822</u>	<u>303,228</u>
Cash basis net assets, end of year					<u>\$ 143,429</u>	<u>\$ 314,414</u>	<u>\$ 457,843</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 7,674	\$ -	\$ 7,674
Debt service					143,277	-	143,277
Other purposes					145,975	235,632	381,607
Unrestricted					<u>(153,497)</u>	<u>78,782</u>	<u>(74,715)</u>
Total cash basis net assets					<u>\$ 143,429</u>	<u>\$ 314,414</u>	<u>\$ 457,843</u>

See notes to financial statements.

City of Morning Sun
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2008

	Special Revenue					Other Nonmajor	
	General	Road Use	Debt Service	TIF	Capital Projects	Governmental	Total
Receipts:							
Property tax	\$ 135,956	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135,956
Tax increment financing collections	-	-	-	49,665	-	-	49,665
Other taxes	35,896	-	-	-	-	-	35,896
Use of money and property	3,544	-	14	-	-	-	3,558
License and permits	1,790	-	-	-	-	-	1,790
Intergovernmental	-	74,707	-	-	-	-	74,707
Charges for services	31,107	-	-	-	-	-	31,107
Miscellaneous	42,613	294	-	-	6,150	1,229	50,286
Total receipts	<u>250,906</u>	<u>75,001</u>	<u>14</u>	<u>49,665</u>	<u>6,150</u>	<u>1,229</u>	<u>382,965</u>
Disbursements:							
Operating:							
Public safety	44,462	-	-	-	-	-	44,462
Public works	9,762	70,007	-	-	-	-	79,769
Culture and recreation	45,971	-	-	-	-	-	45,971
Community and economic development	-	-	-	-	15,016	-	15,016
General government	132,680	-	-	-	-	-	132,680
Debt service	-	3,500	79,544	-	-	-	83,044
Total disbursements	<u>232,875</u>	<u>73,507</u>	<u>79,544</u>	<u>-</u>	<u>15,016</u>	<u>-</u>	<u>400,942</u>
Excess (deficiency) of receipts over disbursements	18,031	1,494	(79,530)	49,665	(8,866)	1,229	(17,977)
Other financing sources (uses):							
Debt proceeds	-	-	40,397	-	64,603	-	105,000
Operating transfers in (out)	<u>(27,772)</u>	<u>1,393</u>	<u>167,046</u>	<u>(128,825)</u>	<u>(12,842)</u>	<u>-</u>	<u>(1,000)</u>
Net change in cash balances	(9,741)	2,887	127,913	(79,160)	42,895	1,229	86,023
Cash balances, beginning of year	<u>(143,756)</u>	<u>4,787</u>	<u>15,364</u>	<u>166,381</u>	<u>3,293</u>	<u>11,337</u>	<u>57,406</u>
Cash balances, end of year	<u>\$ (153,497)</u>	<u>\$ 7,674</u>	<u>\$ 143,277</u>	<u>\$ 87,221</u>	<u>\$ 46,188</u>	<u>\$ 12,566</u>	<u>\$ 143,429</u>
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ 87,221	\$ -	\$ -	\$ 87,221
Unreserved:							
General fund	(153,497)	-	-	-	-	-	(153,497)
Special revenue fund	-	7,674	143,277	-	-	12,566	163,517
Capital projects fund	-	-	-	-	46,188	-	46,188
Total cash basis fund balances	<u>\$ (153,497)</u>	<u>\$ 7,674</u>	<u>\$ 143,277</u>	<u>\$ 87,221</u>	<u>\$ 46,188</u>	<u>\$ 12,566</u>	<u>\$ 143,429</u>

See notes to financial statements.

City of Morning Sun
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2008

	Enterprise Funds						
	Water Service	Equipment Reserve	Sewer Service	Gas Service	Garbage Service	Utility Deposits	Total
Operating receipts:							
Charges for services	\$ 109,011	\$ -	\$ 74,296	\$ 403,858	\$ 52,026	\$ 2,315	\$ 641,506
Total operating receipts	<u>109,011</u>	<u>-</u>	<u>74,296</u>	<u>403,858</u>	<u>52,026</u>	<u>2,315</u>	<u>641,506</u>
Operating disbursements:							
Business type activities	<u>58,789</u>	<u>-</u>	<u>40,504</u>	<u>358,267</u>	<u>48,618</u>	<u>2,240</u>	<u>508,418</u>
Total operating disbursements	<u>58,789</u>	<u>-</u>	<u>40,504</u>	<u>358,267</u>	<u>48,618</u>	<u>2,240</u>	<u>508,418</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>50,222</u>	<u>-</u>	<u>33,792</u>	<u>45,591</u>	<u>3,408</u>	<u>75</u>	<u>133,088</u>
Non-operating receipts (disbursements):							
Interest on investments	-	1,223	1,109	1,663	-	-	3,995
Debt service	(12,761)	-	(24,300)	(2,500)	-	-	(39,561)
Capital projects	<u>(29,930)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,930)</u>
Net non-operating (receipts) disbursements	<u>(42,691)</u>	<u>1,223</u>	<u>(23,191)</u>	<u>(837)</u>	<u>-</u>	<u>-</u>	<u>(65,496)</u>
Excess of receipts over disbursements	7,531	1,223	10,601	44,754	3,408	75	67,592
Operating transfers in (out)	<u>(9,000)</u>	<u>16,000</u>	<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Net change in cash balances	(1,469)	17,223	4,601	44,754	3,408	75	68,592
Cash balances, beginning of year	<u>7,854</u>	<u>29,918</u>	<u>101,585</u>	<u>91,978</u>	<u>(14,770)</u>	<u>29,257</u>	<u>245,822</u>
Cash balances, end of year	<u>\$ 6,385</u>	<u>\$ 47,141</u>	<u>\$ 106,186</u>	<u>\$ 136,732</u>	<u>\$ (11,362)</u>	<u>\$ 29,332</u>	<u>\$ 314,414</u>
Cash Basis Fund Balances							
Reserved for other purposes	\$ -	\$ 47,141	\$ 63,045	\$ 48,057	\$ 48,057	\$ 29,332	\$ 235,632
Unreserved	<u>6,385</u>	<u>-</u>	<u>43,141</u>	<u>88,675</u>	<u>(59,419)</u>	<u>-</u>	<u>78,782</u>
Total cash basis fund balances	<u>\$ 6,385</u>	<u>\$ 47,141</u>	<u>\$ 106,186</u>	<u>\$ 136,732</u>	<u>\$ (11,362)</u>	<u>\$ 29,332</u>	<u>\$ 314,414</u>

See notes to financial statements.

City of Morning Sun
Notes to Financial Statements

Note 1. Significant Accounting Policies

The City of Morning Sun is a political subdivision of the State of Iowa located in Louisa County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development, and general government services. The City also provides water, gas, solid waste and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Morning Sun has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the Des Moines County Regional Solid Waste Commission. A copy of that audit report is available at City Hall.

The City officials are also members of the Planning & Zoning Commission and Board of Adjustments, Louisa Development Group, and Iowa Rural Water Association.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

City of Morning Sun
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

City of Morning Sun
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

The Equipment Reserve account is funds set aside to fund major equipment purchases for the water and sewer department.

The Gas Service funds accounts for the operation and maintenance of the City's gas system.

The Garbage Service accounts for the operation and maintenance of the City's solid waste collection system.

Measurement Focus and Basis of Accounting

The City of Morning Sun maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in Public Safety, Culture and Recreation, General Government, Debt Service, and Capital Projects.

Note 2. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$8,411, equal to the required contribution.

City of Morning Sun
Notes to Financial Statements

Note 3. Bonds and Notes Payable

Bond Indebtedness

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 34,147	\$ 13,994	\$ 30,000	\$ 7,712	\$ 4,278	\$ 1,073	\$ 68,425	\$ 22,779
2010	36,630	11,804	30,000	6,344	4,528	823	71,158	18,971
2011	37,319	10,377	33,000	4,976	4,794	558	75,113	15,911
2012	39,044	8,914	9,000	3,460	5,335	277	53,379	12,651
2013	40,806	7,383	10,000	3,140	-	-	50,806	10,523
2014-2018	139,054	15,404	55,000	10,202	-	-	194,054	25,606
2019-2023	<u>24,000</u>	<u>1,272</u>	<u>24,000</u>	<u>1,272</u>	<u>-</u>	<u>-</u>	<u>48,000</u>	<u>2,544</u>
	<u>\$ 351,000</u>	<u>\$ 69,148</u>	<u>\$ 191,000</u>	<u>\$ 37,106</u>	<u>\$ 18,935</u>	<u>\$ 2,731</u>	<u>\$ 560,935</u>	<u>\$ 108,985</u>

The resolutions providing for the issuance of the sewer and water revenue notes include the following similar provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and that the bond holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly cash transactions shall be made to separate revenue bond retirement accounts for the purpose of making the bond principal and interest payments when due.
- (c) Monthly cash transfers are to be made to the sewer reserve account until a \$24,000 minimum balance is accumulated. At June 30, 2008, this fund had a balance of \$63,045 and is included as part of the Sewer Revenue funds.
- (d) All funds remaining after payment of all maintenance and operating expenses and required transfers shall be placed in revenue surplus accounts. These accounts are restricted for the purpose of paying for any improvement, extension, or repair to the systems or for bond and interest payments which the other accounts might be unable to make.

The interest rate on the general obligation bonds range from 3.00% to 5.00%. The total interest expense recorded for the year ended June 30, 2008 was \$24,079.

City of Morning Sun
Notes to Financial Statements

Note 4. Cash and Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

The City recorded interest receipts during the year of \$7,553.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2008, primarily relating to the General Fund is \$4,279 based on rates of pay in effect at June 30, 2008.

Note 6. Risk Management

The City of Morning Sun is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Related Party Transactions

The City had business transactions between the City and current City officials or employees during the year ended June 30, 2008 totaling \$17,783.

City of Morning Sun
Notes to Financial Statements

Note 8. Commitments

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City are as follows:

Land purchase	\$ 22,600
Engineering costs	455
Legal fees	<u>222</u>
	<u>\$ 23,277</u>

Note 9. Major Supplier

The City purchases energy (gas) for resale. The total amount purchased was \$283,000 from Clayton Energy.

Note 10. Deficit Fund Balance

The General fund and Garbage Service Utility Funds had deficit balances of \$153,497 and \$11,362, respectively. These deficit balances were a result of project costs incurred prior to availability of funds and failure to transfer funds at the appropriate times.

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to:	
Road use	\$ 1,393
Equipment replacement	16,000
Debt service	<u>167,046</u>
	<u>\$ 184,439</u>

Transfer from:	
Water revenue	\$ 9,000
Sewer revenue	6,000
General fund	27,772
Tax increment financing	128,825
Capital projects	<u>12,842</u>
	<u>\$ 184,439</u>

City of Morning Sun
Notes to Financial Statements

Note 12. Prospective Accounting Change

The Government Accounting Standards Board (GASB) has issued several statements not yet implemented by the City of Morning Sun. The statements, which might impact the City of Morning Sun, are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the City for the fiscal year ending June 30, 2009. This Statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This Statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the City for the fiscal year ending June 30, 2010. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities or assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the City for the fiscal year ending June 30, 2009. This Statement establishes standards for accounting and financial reporting for obligations to address the current or potential detrimental effects of existing pollution.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Morning Sun
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2008

	Governmental Funds Actual	Proprietary Fund Type Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 135,956	\$ -	\$ -	\$ 135,956	\$ 130,240	\$ 130,240	\$ 5,716
Tax increment financing collections	49,665	-	-	49,665	30,000	30,000	19,665
Other city taxes	35,896	-	-	35,896	36,813	36,813	(917)
Use of money and property	3,558	3,995	-	7,553	5,500	5,500	2,053
Licenses and permits	1,790	-	-	1,790	725	725	1,065
Intergovernmental	74,707	-	-	74,707	87,061	87,061	(12,354)
Charges for service	31,107	641,506	-	672,613	624,149	651,556	21,057
Special assessments	-	-	-	-	13,775	13,775	(13,775)
Miscellaneous	50,286	-	-	50,286	-	-	50,286
Total receipts	<u>382,965</u>	<u>645,501</u>	<u>-</u>	<u>1,028,466</u>	<u>928,263</u>	<u>955,670</u>	<u>72,796</u>
Disbursements:							
Public safety	44,462	-	-	44,462	43,000	43,000	(1,462)
Public works	79,769	-	-	79,769	82,167	82,167	2,398
Culture and recreation	45,971	-	-	45,971	41,450	41,450	(4,521)
Community and economic development	15,016	-	-	15,016	1,222	26,629	11,613
General government	132,680	-	-	132,680	104,133	129,133	(3,547)
Debt service	83,044	39,561	-	122,605	40,600	80,600	(42,005)
Capital projects	-	29,930	-	29,930	-	-	(29,930)
Business type activities	-	508,418	-	508,418	615,691	615,691	107,273
Total disbursements	<u>400,942</u>	<u>577,909</u>	<u>-</u>	<u>978,851</u>	<u>928,263</u>	<u>1,018,670</u>	<u>39,819</u>
Excess (deficiency) of receipts over disbursements	(17,977)	67,592	-	49,615	-	(63,000)	
Other financing sources	<u>104,000</u>	<u>1,000</u>	<u>-</u>	<u>105,000</u>	<u>-</u>	<u>63,000</u>	
Net change in cash balances	86,023	68,592	-	154,615	-	-	
Cash balances, beginning of year	<u>57,406</u>	<u>245,822</u>	<u>-</u>	<u>303,228</u>	<u>-</u>	<u>-</u>	
Cash balances, end of year	<u>\$ 143,429</u>	<u>\$ 314,414</u>	<u>\$ -</u>	<u>\$ 457,843</u>	<u>\$ -</u>	<u>\$ -</u>	

See accompanying independent auditor's report.

City of Morning Sun
Notes to Required Supplementary Information - Budgetary Reporting

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$90,407. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in public safety, culture and recreation, general government, debt service, and capital projects.

OTHER SUPPLEMENTARY INFORMATION

City of Morning Sun
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Library Grants</u>	<u>Street Assessments</u>	<u>Total</u>
Receipts:			
Miscellaneous	\$ <u>1,229</u>	\$ <u>-</u>	\$ <u>1,229</u>
Total receipts	<u>1,229</u>	<u>-</u>	<u>1,229</u>
Disbursements:			
Culture and recreation	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>1,229</u>	<u>-</u>	<u>1,229</u>
Other financing sources (uses):			
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	1,229	-	1,229
Cash balances, beginning of year	<u>4,178</u>	<u>7,159</u>	<u>11,337</u>
Cash balances, end of year	\$ <u>5,407</u>	\$ <u>7,159</u>	\$ <u>12,566</u>
Cash Basis Fund Balances			
Reserved:			
Special revenue funds	\$ <u>5,407</u>	\$ <u>7,159</u>	\$ <u>12,566</u>
Total cash fund balances	\$ <u>5,407</u>	\$ <u>7,159</u>	\$ <u>12,566</u>

See accompanying independent auditor's report.

**City of Morning Sun
Statement of Indebtedness
Year Ended June 30, 2008**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Sewer improvement	12/01/96	3.00 %	\$ 242,000	\$ 135,000	\$ -	\$ 13,000	\$ 122,000	\$ 4,921	\$ -
Water improvement	06/01/00	3.53 %	182,000	132,000	-	8,000	124,000	4,726	-
Iowa State Bank	04/03/08	5.00 %	105,000	-	105,000	-	105,000	-	-
Iowa State Bank - City Hall	06/21/02	6.90 %	65,000	44,640	-	44,640	-	4,257	-
Total				<u>311,640</u>	<u>105,000</u>	<u>65,640</u>	<u>351,000</u>	<u>13,904</u>	<u>-</u>
Capital loan note:									
Backhoe purchase	11/12/07	5.75 %	\$ 23,821	23,821	-	4,886	18,935	1,114	-
Revenue bonds:									
Sewer revenue - Capmark	07/13/72	5.00 %	\$ 408,000	86,000	-	20,000	66,000	4,300	-
Water revenue series 2000	06/01/00	3.53 %	183,000	133,000	-	8,000	125,000	4,761	-
Total				<u>219,000</u>	<u>-</u>	<u>28,000</u>	<u>191,000</u>	<u>9,061</u>	<u>-</u>
Total indebtedness				<u>\$ 554,461</u>	<u>\$ 105,000</u>	<u>\$ 98,526</u>	<u>\$ 560,935</u>	<u>\$ 24,079</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Morning Sun
Bond and Note Maturities
June 30, 2008**

General Obligation Bonds:

Year Ending June 30,	Interest Rate	Sewer Improvement Bond Dec 1, 1996 Amount	Interest Rate	Water Improvement Bond June 1, 2000 Amount	Interest Rate	Garland Land Iowa State Bank April 3, 2008 Amount	Total
2009	3.00%	\$ 13,000	3.53%	\$ 9,000	5.00%	\$ 12,147	\$ 34,147
2010	3.00%	14,000	3.53%	9,000	5.00%	13,630	36,630
2011	3.00%	14,000	3.53%	9,000	5.00%	14,319	37,319
2012	3.00%	15,000	3.53%	9,000	5.00%	15,044	39,044
2013	3.00%	15,000	3.53%	10,000	5.00%	15,806	40,806
2014	3.00%	16,000	3.53%	10,000	5.00%	16,607	42,607
2015	3.00%	17,000	3.53%	10,000	5.00%	17,447	44,447
2016	3.00%	18,000	3.53%	11,000	-	-	29,000
2017	-	-	3.53%	11,000	-	-	11,000
2018	-	-	3.53%	12,000	-	-	12,000
2019	-	-	3.53%	12,000	-	-	12,000
2020	-	-	3.53%	12,000	-	-	12,000
		<u>\$ 122,000</u>		<u>\$ 124,000</u>		<u>\$ 105,000</u>	<u>\$ 351,000</u>

Revenue Bonds:

Year Ending June 30,	Interest Rate	Water Revenue June 1, 2000	Interest Rate	Sewer Revenue July 13, 1972	Total
2009	3.53%	\$ 9,000	5.00%	\$ 21,000	\$ 30,000
2010	3.53%	9,000	5.00%	21,000	30,000
2011	3.53%	9,000	5.00%	24,000	33,000
2012	3.53%	9,000	-	-	9,000
2013	3.53%	10,000	-	-	10,000
2014	3.53%	10,000	-	-	10,000
2015	3.53%	11,000	-	-	11,000
2016	3.53%	11,000	-	-	11,000
2017	3.53%	11,000	-	-	11,000
2018	3.53%	12,000	-	-	12,000
2019	3.53%	12,000	-	-	12,000
2020	3.53%	12,000	-	-	12,000
		<u>\$ 125,000</u>		<u>\$ 66,000</u>	<u>\$ 191,000</u>

Capital Loan Note:

Year Ending June 30,	Interest Rate	Caterpillar
2009	5.75%	\$ 4,278
2010	5.75%	4,528
2011	5.75%	4,794
2012	5.75%	5,335
		<u>\$ 18,935</u>

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Morning Sun, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 11, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Morning Sun's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Morning Sun's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morning Sun's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morning Sun's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other misstatement of the City of Morning Sun's financial statements that is more than inconsequential will not be prevented or detected by the City of Morning Sun's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Morning Sun's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morning Sun's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Morning Sun's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Morning Sun's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Morning Sun and other parties to whom the City of Morning Sun may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Morning Sun during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

January 11, 2009

City of Morning Sun
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

I-A-08 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Morning Sun. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

I-B-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

I-C-08 Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - The City will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

**City of Morning Sun
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008**

Part II: Other Findings Related to Statutory Reporting

- II-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in public safety, culture and recreation, general government, debt service, and capital projects. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

The City published a notice of public hearing on the budget including a summary of the proposed budget as required by Chapter 384.16 of the Code of Iowa.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-08 Business Transactions - Business transactions between the City and city officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brenda Springsteen, employee, spouse of Frank Springsteen, Springsteen Tiling, Inc.	Construction, per bid Tiling and dozing	\$17,672
Tom Bryant, Mayor	Miscellaneous labor	111

The construction transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor do not appear to represent conflicts since total transactions were less than \$1,500 during the fiscal year.

- II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Morning Sun
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

- II-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-08 Bonds and Revenue Notes - The City has complied with the revenue bond and note resolutions.
- II-H-08 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-I-08 Financial Condition - At June 30, 2008, the General fund and the Garbage Service utility fund had a deficit balance of \$153,497 and \$11,362, respectively.

Recommendation - We understand that property tax collections created the deficit in this account. However, the City should monitor the progress of the property tax collections and review the control procedures throughout the collection period. Transfers should be made to restore these funds to a financially sound basis.

Response - We will analyze our options and try to resolve this.

Conclusion - Response accepted.

- II-J-08 Separately Maintained Records - The City of Morning Sun Volunteer Fire Department maintains a separate checking account for donations, grants and fund raising activities. These accounts are separate from the City's accounts allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City and the Volunteer Fire Department will ensure that procedures are in place to document all receipts and expenditures in accordance with the Code of Iowa.

Conclusion - Response accepted.